

Kobe Steel Interim Report 2004

*Six Months Ended
September 30*

KOBELCO
 **KOBE STEEL, LTD.**

Message from the President

Japan's economy in the first half of fiscal 2004, ended September 30, 2004, was robust, supported by strong exports owing to the expanding Asian and U.S. economies. Capital investment rose, and personal spending steadily increased. Raw material and supply costs continued to escalate due to the soaring Chinese economy.

Under these conditions, the Kobe Steel Group continued to focus its management resources on creating and increasing its "Only One, Number One" upper-end products. We had been carrying out our Fiscal 2003-2005 Consolidated Medium-Term Business Plan, as well as working to meet demand and raise sales prices.

Due to strong demand for steel, aluminum and copper products, Kobe Steel achieved high levels of shipments and higher sales prices. In the wholesale electricity supply business, our two power plants now have a generation capacity of 1.4 million kilowatts. Construction machinery and target material for LCD panels also performed well. As a result, consolidated net sales rose to ¥684.7 billion, up ¥97.7 billion in comparison to the same period last year. Operating income went up 60.4% to ¥67.4 billion. Pretax ordinary income* (also known as pretax recurring profit) increased ¥27.6 billion to ¥45.1 billion. Owing to improved financial performance, Kobe Steel was able to apply fixed-asset impairment accounting, taken as an expense. Net income was ¥15.7 billion, up 74.4%.

<Net Sales>	(billions of yen)		
	FY2004 First Half	FY2003 First Half	%
Iron & Steel	294.0	254.1	15.7%
Wholesale Electricity Supply	27.5	14.5	89.3%
Aluminum & Copper	145.9	122.8	18.8%
Machinery	91.9	83.5	10.1%
Construction Machinery	106.6	93.3	14.3%
Real Estate	16.9	20.6	(17.9%)
Electronic Materials & Other Businesses	25.3	20.7	22.0%
Eliminations	(23.4)	(22.5)	4.1%
Total	684.7	587.0	16.6%

<Operating Income>	(billions of yen)		
	FY2004 First Half	FY2003 First Half	%
Iron & Steel	34.9	22.6	54.4%
Wholesale Electricity Supply	9.6	4.5	112.3%
Aluminum & Copper	8.5	7.2	18.1%
Machinery	0.2	(2.4)	-
Construction Machinery	4.4	3.5	27.2%
Real Estate	1.7	2.6	(36.8%)
Electronic Materials & Other Businesses	6.5	2.7	139.6%
Eliminations	1.6	1.3	20.3%
Total	67.4	42.0	60.4%

Iron & Steel

Demand was robust in the first half of the fiscal year. In Japan, sales to manufacturing industries were strong and the construction sector recovered due to strong overseas demand and increased capital investments. With high exports mainly to Asia, Japan's total crude steel production increased over the same period last year. Owing to the tight supply, the steel market steadily improved.

Welding consumables also performed well owing to an increase for rebar and other steel products, along with strong demand from the shipbuilding, construction and automotive industries. In the overseas market, primarily in Asia, demand was strong in the shipbuilding and the energy industries.

For Kobe Steel, higher steel shipments and price increases led to segment sales of ¥294 billion, up 15.7% from the same period

last year. Operating income rose ¥12.3 billion to ¥34.9 billion.

Wholesale Electricity Supply

The second of our two power plants started commercial operation in April 2004. As a result, segment sales rose 89.3% to ¥27.5 billion and operating income doubled to ¥9.6 billion.

Aluminum & Copper

Shipments of rolled aluminum products rose over the same period last year. Domestic sales volume increased owing to higher shipments of aluminum can stock, brought about by the scorching summer and the further use of aluminum bottle cans, while exports fell, which led to a decrease in overall can stock shipments. However, demand went up for aluminum in cars and semiconductor and liquid crystal fabrication equipment, as well as automotive extrusions.

Shipments of rolled copper products also rose due to strong demand for copper strip for automotive terminals and recovery in semiconductor demand. Combining the copper tube business into a joint venture with Mitsubishi Materials Corporation and the strong demand for air conditioner copper tube brought about by the hot summer contributed to higher copper shipments. As a result, segment sales increased 18.8% to ¥145.9 billion and operating income went up ¥1.3 billion to ¥8.5 billion.

Machinery

Domestic orders increased 4.3% to ¥66.1 billion due to a rise in standard compressors used in capital investments. Overseas orders jumped 98.2% to ¥31.5 billion. Orders were strong for rubber and tire machinery, as well as rotating machinery used in the energy, petroleum and gas fields. Orders for energy-related products such as LNG equipment and reactors were also robust. Overall orders rose 23.1% to ¥97.6 billion and the backlog of orders was ¥178.5 billion.

As a result, segment sales increased 10.1% year on year to ¥91.9 billion. Operating income improved ¥2.6 billion to ¥0.2 billion.

Construction Machinery

The Japanese market was strong as exports of used machines reduced inventories in Japan and tougher emission regulations led to replacement sales. Overseas demand was also robust. Controls to rein in China's galloping economy had slowed demand considerably for construction machinery, but North America, Europe and Southeast Asia were on a recovery path. Demand was also strong in the Middle East and Russia. As a result, segment sales rose 14.3% to ¥106.6 billion and operating income increased ¥0.9 billion to ¥4.4 billion.

Real Estate

Sales of new condominiums in the Tokyo area were lower than the same period last year. In the Osaka area, however, sales rose slightly.

For Kobe Steel, large condominium projects, such as O's Town in Akashi, Hyogo and Maya Seaside Place in Kobe, have largely been completed. As a result, segment sales decreased 17.9% to ¥16.9 billion and operating income fell ¥0.9 billion to ¥1.7 billion.

Electronic Materials & Other Businesses

Owing to the strong performance of a subsidiary that makes target material for LCDs, segment sales rose 22% to ¥25.3 billion and operating income increased ¥3.8 billion to ¥6.5 billion.

Outlook

Uncertain factors in the international economy in the second half of fiscal 2004 are the slowdown in the Chinese and U.S. economies and higher oil and raw material costs. In Japan, however, the economy is seen to continue improving.

For the full fiscal year ending in March 2005, the Kobe Steel Group anticipates surpassing the goals of ¥80 billion in pretax ordinary income and ROA of 6% for fiscal 2005, the last year of our medium-term business plan. Steadily carrying out the measures implemented in each of the business segments, we anticipate reducing our debt to ¥640 billion, as well as attain all of our other management goals at an early stage. On a group-wide basis, we are placing our full efforts into improving our profits.

Looking to the future, the Kobe Steel Group is also making major capital investments in its steelmaking facilities that will further strengthen its competitiveness.

To improve stable operation and reduce costs, the blast furnace at Kobe Works will be relined and a blast furnace at Kakogawa Works will be rebuilt. Both are to go into operation in 2007. Kobe Works will also have a new continuous caster so that it can make higher quality specialty steel. These strategic investments will increase the profitability of specialty steel and other upper-end, distinctive products, an area of strength at Kobe Steel.

As we work toward our goals, we ask for your continued support and encouragement.

December 2004



Yasuo Inubushi
President and CEO

(* Ordinary income is operating income after adjustments of net financial revenue and net expenses generated on a regular basis, including seconded employees' salaries net of reimbursement.)

Consolidated Interim Balance Sheets

At September 30, 2004 and 2003 (unaudited)

Assets	Millions of yen		Thousands of U.S. dollars (Note 1)	Liabilities, Minority Interests and Stockholders' Equity	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004		2004	2003	2004
<i>Current assets:</i>				<i>Current liabilities:</i>			
Cash and time deposits	¥ 66,334	¥ 89,026	\$ 597,334	Short-term borrowings	¥ 122,555	¥ 161,163	\$ 1,103,602
Notes and accounts receivable				Current portion of long-term debt	124,145	186,550	1,117,920
Trade	197,292	187,272	1,776,605	Notes and accounts payable			
Unconsolidated subsidiaries and affiliates	89,834	79,795	808,951	Trade	288,580	231,645	2,598,649
Other	27,843	17,981	250,725	Construction	9,289	11,586	83,647
Allowance for doubtful accounts	(1,498)	(1,526)	(13,489)	Unconsolidated subsidiaries and affiliates	52,009	58,411	468,339
	<u>313,471</u>	<u>283,522</u>	<u>2,822,792</u>	Other	42,357	17,051	381,423
					<u>392,235</u>	<u>318,693</u>	<u>3,532,058</u>
Inventories	251,153	231,725	2,261,621	Advances from customers	31,915	27,007	287,393
Deferred income taxes	18,617	22,947	167,645	Customers' and employees' deposits	29,280	21,158	263,665
Other	18,590	20,128	167,402	Provision for restructuring costs	8,509	6,880	76,623
Total current assets	<u>668,165</u>	<u>647,348</u>	<u>6,016,794</u>	Income and enterprise taxes payable	8,400	4,094	75,642
				Deferred income taxes	795	938	7,159
<i>Investments and other assets:</i>				Other	54,633	44,621	491,967
Investments in securities	80,307	71,872	723,161	Total current liabilities	<u>772,467</u>	<u>771,104</u>	<u>6,956,029</u>
Investments in and advances to unconsolidated subsidiaries and affiliates	37,462	40,036	337,343	<i>Long-term liabilities:</i>			
Long-term loans receivable	6,026	6,467	54,264	Long-term debt	615,638	595,769	5,543,791
Other	63,819	83,819	574,687	Employees' severance and retirement benefits	48,060	54,952	432,778
Allowance for doubtful accounts	(9,866)	(9,339)	(88,843)	Deferred income taxes	6,362	8,462	57,289
	<u>177,748</u>	<u>192,855</u>	<u>1,600,612</u>	Other	67,193	105,117	605,070
					<u>737,253</u>	<u>764,300</u>	<u>6,638,928</u>
<i>Plant and equipment:</i>				<i>Contingent liabilities</i> (Note 2)			
Land	216,791	226,125	1,952,192	<i>Minority interests</i>	34,867	29,434	313,975
Buildings and structures	617,399	596,049	5,559,649	<i>Stockholders' equity:</i>			
Machinery and equipment	1,832,943	1,720,384	16,505,565	Common stock	218,163	218,163	1,964,547
Construction in progress	19,609	45,499	176,578	Authorized-6,000,000,000 shares Issued - 2,976,070,294 shares in 2004 and 2,974,549,861 in 2003			
	2,686,742	2,588,057	24,193,984	Capital surplus	67,975	67,975	612,112
Less accumulated depreciation	(1,706,392)	(1,627,753)	(15,365,979)	Retained earnings	45,996	20,821	414,192
	<u>980,350</u>	<u>960,304</u>	<u>8,828,005</u>	Land revaluation	966	3,254	8,699
<i>Intangible assets</i>	13,853	16,942	124,746	Net unrealized holding gains on securities	18,092	12,067	162,918
<i>Deferred income taxes</i>	45,004	60,906	405,259	Foreign currency translation adjustments	(9,247)	(7,746)	(83,269)
	<u>¥ 1,885,120</u>	<u>¥ 1,878,355</u>	<u>\$ 16,975,416</u>	Treasury stock, at cost	(1,412)	(1,017)	(12,715)
					<u>340,533</u>	<u>313,517</u>	<u>3,066,484</u>
				Total stockholders' equity	<u>¥ 1,885,120</u>	<u>¥ 1,878,355</u>	<u>\$ 16,975,416</u>

See accompanying notes.

Consolidated Interim Statements of Income

Six months ended September 30, 2004 and 2003 (unaudited)

	Millions of yen		Thousands of U.S. dollars
	2004	2003	(Note 1)
			2004
<i>Net sales</i>	¥ 684,743	¥ 587,047	\$ 6,166,079
<i>Cost of sales</i>	549,563	483,058	4,948,789
Gross profit	135,180	103,989	1,217,290
<i>Selling, general and administrative expenses</i>	67,783	61,961	610,383
Operating income	67,397	42,028	606,907
<i>Other income (expenses):</i>			
Interest and dividend income	1,555	1,185	14,003
Interest expense	(12,316)	(13,333)	(110,905)
Seconded employees' salaries net of reimbursement	(9,094)	(9,938)	(81,891)
Foreign exchange gain (loss)	1,364	(1,820)	12,283
Equity in income of unconsolidated subsidiaries and affiliates	4,182	3,479	37,659
Gain on sale of securities	2,676	5,520	24,097
Loss on impairment for fixed assets	(9,075)	-	(81,720)
Loss on sale or disposal of plant and equipment	(2,472)	(2,636)	(22,260)
Effect of applying new accounting standard for retirement benefits	(6,368)	(6,368)	(57,344)
Amortization of prior service credits of pension plans	3,488	3,488	31,409
Other, net	(6,430)	(4,428)	(57,902)
	(32,490)	(24,851)	(292,571)
<i>Income before income taxes</i>	34,907	17,177	314,336
<i>Income taxes:</i>			
Current	6,665	2,953	60,018
Deferred	11,966	4,159	107,753
	18,631	7,112	167,771
<i>Minority interests in income of subsidiaries</i>	(586)	(1,068)	(5,277)
<i>Net income</i>	¥ 15,690	¥ 8,997	\$ 141,288
			U.S. dollars (Note 1)
<i>Per 1,000 shares</i>	2004	2003	2004
<i>Net Income</i>	¥ 5,287	¥ 3,036	\$ 47.61
<i>Diluted net income</i>	5,040	-	45.38

See accompanying notes.

Consolidated Interim Statements of Cash Flows

Six months ended September 30, 2004 and 2003 (unaudited)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
<i>Cash flows from operating activities</i>			
Income before income taxes	¥ 34,907	¥ 17,177	\$ 314,336
Depreciation	40,583	39,229	365,448
Interest and dividend income	(1,555)	(1,185)	(14,003)
Interest expense	12,316	13,333	110,905
Gain on sale of securities	(2,676)	(5,520)	(24,097)
Equity in income of unconsolidated subsidiaries and affiliates	(4,182)	(3,479)	(37,659)
Loss on impairment for fixed assets	9,075	-	81,720
Effect of applying new accounting standard for retirement benefits	6,368	6,368	57,344
Amortization of prior service credits of pension plans	(3,488)	(3,488)	(31,409)
Loss on sale or disposal of plant and equipment	2,472	2,636	22,260
Decrease in trade receivables from customers	22,490	19,090	202,521
Increase in inventories	(15,996)	(12,075)	(144,043)
Increase(Decrease) in trade payables to customers	16,704	(12,750)	150,419
Other	(2,030)	(10,244)	(18,280)
Subtotal	<u>114,988</u>	<u>49,092</u>	<u>1,035,462</u>
Cash received for interest and dividends	2,314	2,152	20,837
Cash paid for interest	(12,812)	(13,190)	(115,371)
Cash paid for income taxes	(4,014)	(4,317)	(36,146)
Net cash provided by operating activities	<u>100,476</u>	<u>33,737</u>	<u>904,782</u>
<i>Cash flows from investing activities</i>			
Purchase of plant, equipment and other assets	(23,374)	(23,172)	(210,482)
Proceeds from sale of plant, equipment and other assets	2,225	6,689	20,036
Purchase of investments in securities	(1,969)	(5,014)	(17,731)
Proceeds from sale of investments in securities	3,568	9,010	32,130
Decrease (increase) in short-term loans receivable	16	(503)	144
Long-term loans receivable	(193)	(569)	(1,738)
Proceeds from collection of long-term loans	661	806	5,952
Net proceeds from sale of a former consolidated subsidiary	-	2,227	-
Other	(133)	707	(1,198)
Net cash used in investing activities	<u>(19,199)</u>	<u>(9,819)</u>	<u>(172,886)</u>
<i>Cash flows from financing activities</i>			
Decrease in short-term borrowings	(39,694)	(272)	(357,443)
Proceeds from commercial paper	10,000	-	90,050
Proceeds from issuance of long-term debt	16,970	15,939	152,814
Repayment of long-term debt	(52,588)	(79,217)	(473,552)
Proceeds from issuance of bonds	10,000	53,808	90,050
Repayment of bonds	(19,720)	(3,886)	(177,578)
Cash dividends	(4,405)	-	(39,667)
Other	(5,755)	(5,423)	(51,824)
Net cash used in financing activities	<u>(85,192)</u>	<u>(19,051)</u>	<u>(767,150)</u>
<i>Effect of exchange rate changes on cash and cash equivalents</i>			
	56	994	504
<i>Increase (decrease) in cash and cash equivalents</i>			
	<u>(3,859)</u>	<u>5,861</u>	<u>(34,750)</u>
<i>Cash and cash equivalents at the beginning of the six months</i>			
	68,503	81,809	616,866
<i>Cash and cash equivalents of newly consolidated subsidiaries</i>			
	912	696	8,213
<i>Cash and cash equivalents at the end of the six months</i>			
	<u>¥ 65,556</u>	<u>¥ 88,366</u>	<u>\$ 590,329</u>

See accompanying notes.

Consolidated Interim Statements of Stockholders' Equity

Six months ended September 30, 2004 (unaudited)

	Millions of yen							
	Shares of common stock	Common stock	Capital surplus	Retained earnings	Land revaluation	Net unrealized holding gains on securities	Foreign currency transaction adjustments	Treasury stock
Balance at April 1, 2004	2,976,070,294	¥ 218,163	¥ 67,975	¥ 31,633	¥ 1,905	¥ 20,994	¥ (9,554)	¥ (989)
Net income	—	—	—	15,690	—	—	—	—
Adjustments from translation of foreign currency financial statements	—	—	—	—	—	—	307	—
Decrease in unrealized holding gains on securities	—	—	—	—	—	(2,902)	—	—
Cash dividends	—	—	—	(4,462)	—	—	—	—
Effect of change in interests in subsidiaries	—	—	—	2,273	—	—	—	—
Bonuses to directors	—	—	—	(14)	—	—	—	—
Increase due to merger of consolidated subsidiaries	—	—	—	7	—	—	—	—
Decrease due to changes in consolidated companies	—	—	—	(60)	—	—	—	—
Adjustment to revaluation of land	—	—	—	929	(939)	—	—	—
Treasury stock	—	—	—	—	—	—	—	(423)
Balance at September 30, 2004	2,976,070,294	¥ 218,163	¥ 67,975	¥ 45,996	¥ 966	¥ 18,092	¥ (9,247)	¥ (1,412)

Thousands of U.S. dollars (Note 1)

	Common stock	Capital surplus	Retained earnings	Land revaluation	Net unrealized holding gains on securities	Foreign currency transaction adjustments	Treasury stock
Balance at April 1, 2004	\$ 1,964,547	\$ 612,112	\$ 284,854	\$ 17,154	\$ 189,050	\$ (86,033)	\$ (8,906)
Net income	—	—	141,288	—	—	—	—
Adjustments from translation of foreign currency financial statements	—	—	—	—	—	2,764	—
Decrease in unrealized holding gains on securities	—	—	—	—	(26,132)	—	—
Cash dividends	—	—	(40,180)	—	—	—	—
Effect of change in interests in subsidiaries	—	—	20,467	—	—	—	—
Bonuses to directors	—	—	(126)	—	—	—	—
Increase due to merger of consolidated subsidiaries	—	—	63	—	—	—	—
Decrease due to changes in consolidated companies	—	—	(540)	—	—	—	—
Adjustment to revaluation of land	—	—	8,366	(8,455)	—	—	—
Treasury stock	—	—	—	—	—	—	(3,809)
Balance at September 30, 2004	\$ 1,964,547	\$ 612,112	\$ 414,192	\$ 8,699	\$ 162,918	\$ (83,269)	\$ (12,715)

See accompanying notes.

Notes to Consolidated Interim Financial Statements

September 30, 2004 (Unaudited)

1. Presentation of Financial Statements

Kobe Steel, Ltd. (the "Company") and its consolidated domestic subsidiaries maintain their official accounting records in Japanese yen and in accordance with the provisions set forth in the Japanese Commercial Code and accounting principles generally accepted in Japan ("Japanese GAAP"). The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile.

The accompanying consolidated interim financial statements should be read in conjunction with the financial statements and related notes included in the Annual Report of the Company to stockholders for the year ended March 31, 2004.

Certain accounting principles generally accepted in Japan are different from International Accounting Standards and standards in other countries in certain respects as to application and disclosure requirements.

The accompanying interim financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of statements of stockholders' equity) from the consolidated interim financial statements of the Company prepared in accordance with Japanese GAAP and

filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at September 30, 2004, which was ¥111.05 to U.S. \$1.00. The convenience translation should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

Commencing in fiscal 2004, ending March 31, 2005, the Company and its consolidated domestic subsidiaries adopted the new Japanese accounting standard for impairment of fixed assets. As a result, income before income taxes for the first half of fiscal 2004, ended September 30, 2004 decreased by ¥9,075 million (\$81.7 million). Accumulated impairment losses are deducted from the amounts of each asset.

2. Contingent Liabilities

At September 30, 2004, the Company and its consolidated subsidiaries were contingently liable for guarantees of loans of ¥5,790 million (\$52.1 million). This figure includes contingent guarantees and letters of awareness of ¥802 million (\$7.2 million).

Investor Information

Founded: September 1905

Incorporated: June 1911

Fiscal Year: April 1-March 31

Transfer Agent and Office:

The Mitsubishi Trust & Banking Corporation
4 -5, Marunouchi 1-chome, Chiyoda-ku,
TOKYO 100-8212, JAPAN

Listings and Quotations:

Kobe Steel is listed on the Tokyo Stock Exchange, the Osaka Securities Exchange and the Nagoya Stock Exchange in Japan. American Depositary Receipts for common stock are traded over the counter in the United States.

Depository for American Depositary Receipts:

The Bank of New York Company, Inc.
101 Barclay Street, New York,
NY 10286, U.S.A.
Tel: (212) 815-2042 (U.S. toll free: 888-269-2377)
URL: <http://www.adrbny.com>

Investor Inquiries:

Japan

IR Group
Corporate Planning Department
Kobe Steel, Ltd.
9-12, Kita-Shinagawa 5-chome,
Shinagawa-ku, TOKYO 141-8688, JAPAN
Tel: (03) 5739-6043 Fax: (03) 5739-5973

U. S. A.

Kobe Steel USA Inc.
535 Madison Avenue,
New York, NY 10022, U.S.A.
Tel: (212) 751-9400 Fax: (212) 308-3116

E-mail: www-admin@kobelco.co.jp

URL: <http://www.kobelco.co.jp>

